

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Promote Policy  
and Program Coordination and Integration in  
Electric Utility Resource Planning.

Rulemaking 04-04-003  
(Filed April 1, 2004)

**ADMINISTRATIVE LAW JUDGE'S RULING PROVIDING NOTICE OF  
AVAILABILITY OF PHASE 2 RESOURCE ADEQUACY REQUIREMENTS  
(RAR) WORKSHOP REPORT AND PROVIDING FOR COMMENTS**

**Summary**

In accordance with direction provided in Decision (D.) 04-10-035, the advisory staff has prepared a report on the Phase 2 RAR workshops that were held from November 2004 through April 2005. This ruling provides notice of availability of the workshop report and further provides that the report shall be filed in this docket. The report may be obtained at <http://www.cpuc.ca.gov/PUBLISHED/REPORT/46914.PDF>. This ruling also provides for comments and replies that address issues raised in the workshop report and other issues that are relevant to, and whose resolution is necessary for, a fair resolution of Phase 2 of the RAR portion of this proceeding.

**Discussion**

The Commission determined that workshops would constitute the centerpiece of Phase 2. (D.04-10-035, Section 4, p. 44.) Accordingly, Phase 2 will be submitted to the Commission on the record which comprises the workshop report and the comments and replies submitted pursuant to this ruling.<sup>1</sup>

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<sup>1</sup> The Phase 1 workshop report dated June 15, 2004 remains in the record and may be considered by the Commission in Phase 2.

Advisory staff has identified throughout the workshop report issues to be resolved in the Phase 2 RAR decision and for which comments are invited. These issues have been compiled into a single listing which is attached to this Ruling as Appendix A. Parties shall organize their comments in the order in which the issues are presented in Appendix A.

Parties may comment on issues not specifically identified in the workshop report. For example, parties may wish to address the feasibility of implementing all pieces of the RAR program under the contemplated schedule. Parties shall organize their comments so that such comments follow the comments that respond to Appendix A. While parties are not strictly bound by the scope of the workshop report, they shall observe the scope of Phase 2 as delineated by the Commission in Section 4 of D.04-10-035.

The California Independent System Operator has scheduled a stakeholder meeting on its Location Capacity Requirement Study for June 29, 2005. Commission Staff has advised me that parties may wish to address the CAISO study and any recommendations therein in their Phase 2 workshop comments. Accordingly, to provide adequate time for parties to review the CAISO study before they file their comments, I will provide that comments are due the following week.

**IT IS RULED** that

1. Parties are hereby notified of the availability of the Phase 2 Resource Adequacy Requirements (RAR) workshop report prepared by advisory staff. The report has been posted on the Commission's website and may be obtained at the following link: <http://www.cpuc.ca.gov/PUBLISHED/REPORT/46914.PDF>.
2. The Phase 2 workshop report shall be filed in this docket.
3. Comments on the Phase 2 RAR workshop report and other Phase 2 topics may be filed in accordance with the foregoing discussion and are due on July 8,

2005. Replies to comments may be filed and are due on July 18, 2005. Parties shall limit their comments to issues that are relevant to, and whose resolution is necessary for, a fair determination of Phase 2 RAR issues.

Dated June 10, 2005, at San Francisco, California.

/s/ MARK S. WETZELL

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Mark S. Wetzell

Administrative Law Judge

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**Resource Adequacy Requirements**  
**Topics for Comment Identified in Phase 2 Workshop Report**

1. In comments to this workshop report, parties are encouraged to comment on the components and timing of the annual framework and provide suggestions for streamlining and creating the maximum level of efficiency.
2. The Commission must determine whether to adopt the CPUC staff/CAISO proposal to make the RA obligation applicable to both LSEs and suppliers of RA resources.
3. The Commission must also decide whether a qualified resource should count for the life of its contract with the LSE, even if it is de-rated in subsequent years due to performance.
4. The Commission must determine whether to take the position that an extension of the must offer and associated waiver process is necessary to facilitate commitment of RA resources and until MRTU is implemented, and if so what cost information for RA resources will be presented to the CAISO to factor into their dispatch decisions.
5. The CPUC must decide whether to adopt (or modify) the SVMG working proposal for standard contract language. The CPUC should consider how any changes to standard contracting elements should be incorporated into the Renewable Procurement Standard (RPS) contracting process.
6. The CPUC must decide the process it will pursue in the event that the CEC highlights non-compliance issues associated with forecasting. Parties are asked to propose options to safeguard against non-compliance.
7. The CPUC must decide whether to provide for a process for LSEs to resolve disputes with the CEC in the event there is disagreement regarding the forecasts. The CPUC must outline the process.

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8. The CPUC must decide whether it will formally adopt the CEC forecasts and the associated resource adequacy obligation on a yearly basis. Or in the alternative, the CPUC may want to decide whether it's appropriate to delegate the task of formally adopting forecasts to the CEC in the Phase 2 final decision.
9. The CPUC must decide how the formal yearly adoption of the forecast and reserve obligations will work with the timing of the reporting requirements to allow LSEs sufficient time to meet the obligation.
10. The Commission must decide the process for determining whether sanctions are warranted in the event that the CEC determines that load forecasts were inappropriate, or alternatively, whether there is a more upfront means to provide LSEs with their capacity procurement target that reduces the need for after-the-fact second-guessing and potentially a burdensome Commission process for sanctions. As discussed in Section 6.D. and 6.E., the Commission must decide whether, and to what extent, the CAISO should have the responsibility for enforcing the RAR.
11. The CPUC and CAISO must work to ensure that the determination of the local capacity requirements are coordinated with the overall RA timeline.
12. The CPUC must affirm that local resource adequacy requirements imposed by the Phase II decision are intended to replace existing RMR contracts. The CPUC, CAISO and FERC must coordinate the transition out of the existing RMR contracts to local RA requirements. These agencies must also coordinate to assure that CAISO backstop procurement cost allocation provides the correct incentive for LSEs to comply with RAR and minimize the CAISO's role in procurement.
13. The CPUC, CAISO and FERC must coordinate efforts in determining the replacement requirements, and the schedule for elimination of, the CAISO's existing "must offer" authority.
14. The Commission needs to be clear that resource adequacy requirements will replace FERC-imposed must-offer obligations.

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15. The CAISO must determine whether it is prepared to undertake these activities and respond to the CPUC in its comments on this report.
16. The CPUC and CAISO will need to coordinate to ensure that the intent of the CPUC policy decisions is appropriately reflected in the tariffs the CAISO files with FERC.
17. The Commission should reaffirm the requirement that LSEs prepare and submit hourly load forecasts based on the “best estimates” approach.
18. The Commission needs to choose from among two broad approaches to load forecast coincidence adjustments:
  - Methods using historic data, perhaps from one or more years, that can be implemented by LSEs as part of the preparation of preliminary load forecasts;
  - Methods using LSE-specific preliminary hourly load forecasts that are implemented by the CEC as part of its review of preliminary load forecasts.
19. The Commission needs to interpret the Topic 3-4 Working Proposal carefully as outlined in Appendix C and confirm those portions that fit within the framework previously established in D.04-10-035, and reject those portions that do not.
20. The Commission should direct EE, DR, and DG measurement and evaluation efforts to support the hourly load shape impact assessments that are necessary to the inclusion of the impacts of policy-preferred resources within RAR.
21. The Commission should direct IOUs to make monthly estimates of EE, DR, and DG for all twelve months of the year despite any uncertainties of responsibility about program administration.

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22. The Commission should require IOUs and any independent evaluators to prepare EE, DR, or DG impacts according to the informational needs of RAR.
23. The Commission must determine whether a simple DG impact assessment methodology is acceptable for this round of RAR compliance, and that developing more sophisticated methodologies can be deferred to subsequent cycles.
24. The Commission must decide whether the simple transmission losses and UFE method proposed by the CAISO is acceptable.
25. IOUs should address the following questions in their comments on this workshop report:
  - Do DLF forecasting methodologies exist that could be available for use on a long-term forecast basis, e.g. in spring 2005 for hourly load forecasts through December 31, 2006?
  - If these are not available, how could the existing DLF methodology be modified to allow its use on a long-term forecast basis?
  - Given that DLFs are prepared separately for two or three voltage levels, for the purposes of year-ahead and month-ahead aggregate load forecasting, is it reasonable to assign various customer classes to specific of these voltage levels, e.g. industrial customer class loads use high level DLF formulas?
  - Is it correct that DLFs exclude UFE? If not, can those IOU DLF methodologies, which include UFE, have that element removed easily?
  - To the extent further development of DLFs is necessary, how can this be completed and reviewed in a manner appropriate to the needs of preparing long-term hourly load forecasts for 2006 in the summer of 2005?

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26. Parties are invited to comment on shortcomings of the write-up in Section 5.A. with regards to the “top-down” / “bottom-up” methodologies.
27. The Commission needs to determine whether to adopt a “Bottom-up” or “Top-down” approach. Parties are encouraged to further detail the differences in grid operation and implementation between the two approaches.
28. There are two issues the CPUC must consider in how it includes Demand Response programs within the RAR framework. First, is it appropriate to plan to use dispatchable DR programs up to the limits now established for each tariff and/or program? Second, once DR programs are put forward as qualifying capacity as part of the compliance filings of each LSE, how do these programs actually get triggered should the LSE or the CAISO decide that they are needed?
29. The Commission needs to resolve a series of questions that such a use-limited program raises:
  - Is a call capability limited to at most 4 days per summer month enough to say that this resource can be counted as qualifying capacity for each of the four months?
  - If four days per month is too few, then what is the minimum number of days that allows this DR program to be considered sufficiently flexible to serve as a reserve?
  - Should DR programs with triggering conditions requiring CAISO emergency conditions be excluded as ineligible to be considered resource adequate, e.g., are there some dispatchable DR programs that should not be counted upon as a resource for resource adequacy, but held in reserve for true emergencies? If so, what level of capacity should be held back?
  - What mechanism should be used to decide which programs should be retained for true emergencies and which ones should be modified for more regular use in a resource adequacy framework?



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- For those programs for which it is acceptable to convert to use in resource adequacy, should the triggering conditions of these programs be modified to allow DR to be scheduled through the CAISO on a Day Ahead basis?
  - Should DR programs be exempted from the Day Ahead scheduling requirement, but be made available to the CAISO in some other way if system conditions warrant their use?
30. Parties are asked to comment on the issue at hand which is to determine how compatible dispatchable DR programs are with the dispatch and bidding protocols for non-DR resources.
31. The Commission needs to resolve the following questions:
- What are the system conditions under which the CAISO is allowed to exercise its “system support rights” for DR nominated as resource adequacy resources by LSEs? Alternatively, are there supply/demand conditions for the IOU service areas that are the appropriate basis for triggering demand response programs designed for that service area alone?
  - Are these conditions the same as those for more flexible generation or energy limited generation?
  - If they are not the same, are they more restrictive, essentially creating some sort of queue for resources in which DR resources come last?
  - If there is some sort of queuing, is there a hierarchy among the various dispatchable DR programs?
32. The Commission needs to resolve the following:
- To what extent must parties to R.02-06-001 and the participants in existing demand response programs be apprised of possible changes in individual program/tariff triggering conditions and allowed to comment?

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- Assuming parties provide sufficient input on the policy questions raised in the previous subsections through comments on this workshop report, is an Assigned Commissioner Ruling (ACR) preceding the final Phase 2 resource adequacy decision an acceptable means to encourage the IOUs to propose advice letters implementing a solution to these demand response issues?
33. We ask the CAISO to outline the specific process for proposing a reevaluation of the import level determination.
  34. Parties are encouraged to include a discussion of the options not discussed in the workshops for allocating import capability for counting RAR.
  35. In the comments on the workshop report, parties should address how the deliverable portion of the DWR contracts can or will be determined to be able to count towards RA..
  36. Parties in their workshop comments should address whether the FPL/SCE alternative proposal for allocating unused imports based on share of peak load may resolve the needs for 'use it or lose it' provisions and the need for a secondary market for import shares.
  37. The Commission must decide if it wants to have an evergreen provision for existing external resources that may count towards the RAR. If so, which resources are eligible, physical resources and/or contracts? If the Commission decides against an evergreen provision, then it must establish a means for selling and trading un-used allocations among LSEs and whether there should be a "use it or lose it" provision. Based on the workshop comments, the Commission will have to determine whether the FPL/SCE alternative proposal is a superior approach to the approach whereby the allocation would occur based on TAC contribution and how that approach addresses the outstanding issues outlined above.
  38. Parties should comment on the options identified in Section 5.C.3. in their comments to this report.

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39. The Commission needs to decide whether (and to what extent) to grandfather existing LD contracts and allow them to count for resource adequacy. The Commission needs to determine how it will transition existing LD contracts into a RAR framework.

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40. The Commission needs to decide if it will permit new LD contracts to count for resource adequacy and to determine if an appropriate “grace period” should be adopted to allow the market to develop a proper capacity product
41. The Commission needs to decide if it would permit waiver requests for an LSE to not meet its RAR. If the Commission determines that it would adopt a waiver, the Commission would need to establish the criteria under which a waiver request would apply. In comments, parties are asked to identify and propose the criteria the Commission may use if it chooses to adopt a waiver.
42. Since the issues raised by Powerex regarding imports were not fully discussed in workshops, parties are encouraged to discuss the Powerex proposal (see Appendix E) in the comments to this report.
43. The Commission will need to determine how to address the role of imports in meeting the Resource Adequacy Requirement. In workshop comments, parties should specifically address whether there are special circumstances for imports that would require an exemption from the determinations made with regard to: 1) the availability, must-offer requirements, that internal generators are subject to; 2) the resource specific provisions that are the objection of the “end-state”; and 3) which import products constitute capacity as opposed to energy.
44. If the Commission decides that non-utility LSEs should be allowed to use an allocated portion of the capacity value of the DWR contract and URG (including QF contracts in their RAR filings, it must choose a method or methods for making such allocations. The general consensus reached at the February 8, 2005 workshop is that the issues raised in connection with Topic 16 can be resolved by the Commission on the basis of comments and replies submitted in response to this workshop report.
45. The CPUC must establish a process for assessing generator capacity for wind and solar resources without dispatchable backup that will be used by LSEs to meet their resource adequacy obligation.

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46. The CPUC must decide whether a rolling three-year average of an individual month's generation is an appropriate historical benchmark for the next year's expected generation.
47. The CPUC should establish a methodology for assessing generation capacity (and expected output) that does not unduly disadvantage renewable generation. One issue that should be examined closely is how to assess renewable generation assets that have been upgraded or repowered.
48. The Commission must decide whether the SO1 hours are an appropriate measure of the peak hours.
49. The Commission must decide whether generation should be calculated separately for each wind-generation region.
50. The Commission must decide whether it will be adequate to measure the historical generation overall for all of the units in a wind region, or whether a more fine measurement that breaks out technology types or vintages would be better.
51. The Commission must decide whether both aspects of the qualifying rule for energy-limited resources should be applied in the non-summer months or, in the alternative, it is not necessary to mandate that qualifying capacity must be able to operate for as many hours in the month as demand is expected to be above 90% of the month's peak demand.
52. The Commission must decide whether the CAISO-CEC working proposal for Commercial-On-Line Date status is appropriate and satisfactory.
53. Parties should include in their workshop report comments a discussion of how the 100% forward local capacity requirement impacts the month ahead reporting obligation. Given the compressed timeframe to implement RAR (local and otherwise), parties should also comment on

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how to work through the first year's requirement. Parties are encouraged to propose options to meet the June 2006 requirement.

54. Parties should also comment on whether changing to a rolling 12-month obligation might prove more efficient.
55. The CPUC and CAISO must create a schedule that provides adequate time for market participants to meet their RAR, while balancing the need for LSE compliance filings to be submitted to the relevant state agencies with sufficient time for review. The CPUC should establish a timeline for meeting the RAR.
56. The Commission must decide whether the more stringent load forecasting and outage conditions for identifying local capacity requirements in the CAISO proposal should be accepted.
57. The Commission, CEC and CAISO should coordinate to determine the most appropriate means to identify specific LSE responsibility for local capacity requirements based on location of end-users.
58. Parties should comment on the pooling approach to increase the ability of smaller LSEs to meet local requirements or the appropriateness of using penalties to procure for capacity the LSEs found unable to do.
59. Parties may also suggest alternative approach that would enable them to meet local requirements.
60. The Commission should confirm that it requires LSEs to submit to the CEC documented hourly load forecasts for all twelve months of the year as part of the year-ahead preliminary load forecast submissions each spring.
61. The Commission must choose an annual spring filing date for preliminary load forecasts submissions, and a special date for 2005 reflecting the preliminary nature of the requirements for the first cycle. It must also choose a date by which final load forecasts are returned to LSEs.

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62. The Commission must endorse a specific set of load forecast definitions and documentation requirements that support the intended goals of developing acceptable, adjusted load forecasts for each LSE. Parties should provide proposals for specific load forecasting definitions and documentation requirements.
63. The CPUC must make decisions about what will be confidential and for how long. It must decide the process that it will use to provide necessary access by the CEC and CAISO as agents of the CPUC. The CPUC must decide whether and how to allow access for discretionary purposes by allowing interested parties to judge whether their interests are being protected. The mechanisms to implement these decisions may need to be put in place prior to the forthcoming Phase 2 decision to allow preliminary load forecasts to be submitted on the schedule necessary to assure that compliance filings can be submitted in this calendar year.
64. The Commission must determine at the outset, the process by which disputes will be resolved and how much the Commission should delegate to the CEC up-front to avoid further Commission decisions. The Commission must determine what process it will need to adopt to make the CEC's load forecasts determinations final.
65. Since there is no resolution on the issues identified in Section 6.B.1., we ask parties to comment and provide options on how to streamline the process for the CEC to make final load forecasting determinations.
66. The Commission must determine at the outset, the process by which disputes will be resolved and how much the Commission should delegate to the CEC up-front to avoid further Commission decisions. The Commission must determine what process it will need to adopt to make the CEC's load forecasts determinations final.
67. The CPUC must determine at the outset if it should delegate load-forecasting tasks to the CEC up-front to avoid further delays through Commission decisions.

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68. The Commission would benefit from fully understanding whether any appeal rights of an LSE should also be specified along with the process for such an appeal. We ask parties to comment and provide options for the Commission's consideration to streamline and avoid delays or unnecessary Commission orders.
69. The Commission needs to decide whether it will direct the CEC to implement an aggregate load forecast comparison process, and to the extent that discrepancies exceed a specified threshold, such as one percent, that the CEC should make pro-rata adjustments to all LSE load forecasts.
70. The Commission needs to decide whether the reporting process and template proposed by the CAISO is generally acceptable and is sufficient to conduct the Year-Ahead resource tabulation review process, and if so to direct that it be modified to match the needs of whichever of the "top-down" or "bottom-up" approaches described in Chapter 2 that the Commission selects.
71. The Commission's Year-Ahead compliance filings must provide a means to demonstrate that each LSE serving load in a load pocket has acquired its fair share of local capacity requirements.
72. The Commission needs to determine what resource tabulation data should be held in confidence and for how long, and whether there should be access to such confidential data under appropriate protective order conditions.
73. The Commission must determine whether to approve the working proposal as further outlined in Appendix I.
74. The Commission must decide whether the month-ahead filing should be submitted 15 or 30 days prior to the operating month.
75. The Commission must also decide whether to adopt the guiding principals for compliance developed by IEP and CAISO that were supported by workshop participants.



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76. The Commission must determine whether it will allow the month-ahead compliance filings to update for load migration or other load changes, and the various resource changes that may be important to address. The Commission must also determine how any update opportunities given to LSEs might affect the 100% year head local procurement requirement for all 12 months.
77. As with Year-Ahead compliance review, the Commission must decide whether the CAISO should determine compliance with the year-ahead and month-ahead reports as part of an overall enforcement responsibility.
78. We ask parties to comment on the connection between the resource adequacy requirement time period and the time period used to impose penalties. The Commission will need to fully understand the appropriateness of imposing sanctions over a different timeframe than its required resource adequacy.
79. The CPUC should determine the level of penalties on LSEs that do not procure adequate resources.
80. The CPUC must decide whether or not to adopt the CPUC staff/CAISO proposal that splits the RA obligation between generators and LSEs.
81. The Commission must decide whether imposition of sanctions by the CAISO or the Commission is most compatible with effective enforcement of the RA requirements.
82. The Commission must determine whether after-the-fact review of load forecasting accuracy is desirable, and if so, how to conduct such review.
83. The Commission must determine whether it wishes for a resource performance tracking process to be developed in addition to the generator obligations to be set forth in the ISO Tariff as discussed above.

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84. The Commission must determine, whether the CAISO or some other organization is the appropriate entity to prepare these assessments.
85. The Commission must determine whether the results will eventually be used in a manner that creates financial incentives for improved generator performance.
86. The Commission must determine whether it wants to create an after-the-fact performance review process, and whether it wants this process to be informational or whether it wants ultimately this process to provide financial incentives to LSEs to forecast load more accurately and their nominated resources to perform at higher levels and respond more precisely to CAISO dispatch instructions.
87. The Commission must decide whether the resource tabulation data submitted by LSEs may be used by the CEC and/or CAISO in improving the short term supply/demand assessments that are used to inform the Governor and legislature, and if so, whether any aggregation constraints need to be imposed to assure that any individual LSE data confidentiality designations are protected.

**(END OF APPENDIX A)**

**CERTIFICATE OF SERVICE**

I certify that I have by mail, and by electronic mail to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Administrative Law Judge's Ruling Providing Notice of Availability of Phase 2 Resource Adequacy Requirements Workshop Report and Providing for Comments on all parties of record in this proceeding or their attorneys of record.

Dated June 10, 2005, at San Francisco, California.

/s/ TERESITA C. GALLARDO

Teresita C. Gallardo

**N O T I C E**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.